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July 28, 2008

***VIA ELECTRONIC FILING
AND OVERNIGHT DELIVERY***

Oregon Public Utility Commission
550 Capitol Street, NE Suite 215
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Attn: Vickie Bailey-Goggins
Regulatory and Technical Support

RE: UM 1368 – In the Matter of PacifiCorp, dba Pacific Power, Request for Approval
of a 2008R-1 Solicitation Process for New Renewable Resources

PacifiCorp dba Pacific Power hereby submits for filing the Company's comments and
revised request for proposal and relevant appendices in the above-referenced matter.

Informal inquiries may be directed to Joelle Steward at (503) 813-5542.

Very truly yours,


Andrea L. Kelly
Vice President, Regulation

Enclosures

cc: Service List UM 1368

CERTIFICATE OF SERVICE

I hereby certify that on this 28th day of July, 2008, I caused to be served, via E-Mail and Overnight Delivery (to those parties who have not waived paper service), a true and correct copy of the foregoing document on the following named person(s) at his or her last-known address(es) indicated below.

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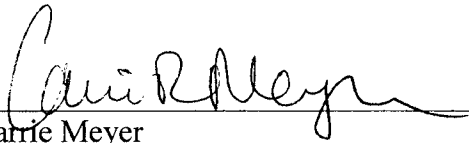
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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1368

In the Matter of PacifiCorp's Request for
Approval of a 2008R-1 Solicitation
Process for New Renewable Resources

**COMMENTS AND REVISED DRAFT
RFP OF PACIFIC POWER**

1

2 Pursuant to Administrative Law Judge Kirkpatrick's May 9, 2008 ruling adopting a
3 schedule for this docket, as revised by Judge Kirkpatrick's July 17, 2008 ruling, PacifiCorp,
4 d.b.a. Pacific Power ("PacifiCorp" or "Company") respectfully submits its revised draft
5 2008R-1 Renewable Request for Proposals ("2008R-1 RFP") and provides comments in
6 response to the Oregon Independent Evaluator's ("IE") assessment and other input received
7 from Stakeholders.

8

I. INTRODUCTION

9

10 On June 12, 2008 Staff and Renewable Northwest Project ("RNP") filed opening
11 comments on the 2008R-1 RFP. The Company filed reply comments on June 19, 2008.
12 Subsequently, the Company held two workshops with Stakeholders, the IE and Staff on June
13 25, 2008 and July 21, 2008. The June 25, 2008 workshop addressed comments received from
14 RNP and Staff. The July 21, 2008 workshop addressed comments raised in the IE's report
15 filed on July 3 which contained the IE's assessment of PacifiCorp's 2008R-1 RFP.

16 As a result of the comments received and the workshops held, the Company has
17 incorporated several revisions in the 2008R-1 RFP. All of these changes are included in the
18 attached redline of the 2008R-1 RFP.

19 In addition to the comments filed by PacifiCorp on June 19, 2008, the Company
20 provides the following responses and recommendations to the issues raised in the workshops

1 and the IE’s assessment of the 2008R-1 RFP. The IE groups its recommendations into four
2 separate categories: 1) fairness and transparency, 2) addressing uncertainty and assigning
3 risk, 3) producing a positive result, and 4) compliance with Commission guidelines. The
4 Company provides the following in response to the recommendations within each of these
5 separate categories.

6 II. COMMENTS

7 A. Fairness and Transparency

8
9 The IE believes the ACC methodology understates the value of renewable generation
10 resources in two ways. First, the IE believes it calculates avoided costs of renewable
11 generation resources using only a single estimate of future carbon (“CO₂”) emissions cost.
12 Second, the IE believes the ACC methodology does not directly reflect a value for
13 Renewable Energy Credits (“RECs”). The IE indicates that since all bids will avoid carbon
14 emissions and produce RECs, these two issues will not cause harm so long as the ACC is
15 only used to rank bids. However, the IE cautions that the Company should not use the ACC
16 analysis to justify taking less than 500 megawatts (“MW”) without performing subsequent
17 analysis with different CO₂ emissions cost levels and taking into consideration REC values
18 that reflect values assigned to RECs in the Integrated Resource Planning (“IRP”) process
19 adjusted¹ for consideration of Renewable Portfolio Standards in Oregon and other states.
20 Additionally, the IE states that the Company’s ACC method nicely takes into account the risk
21 of key market variables² like natural gas prices and wholesale power costs. It also accounts

¹ The IE states this adjustment should include consideration of factors such as levels and timing of renewable requirements, market composition of current PacifiCorp renewable supply, Alternative Compliance Payments, available of RECs on open markets, potential market value, and the “bankability” and “salability” of RECs.

² ACC uses the Planning at Risk model, which does include a stochastic evaluation (100 iterations with market prices, gas prices, hydro generation, retail load, and forced outage rates which are allowed to change using

1 for key costs and benefits such as wind integration costs. Finally, the IE recommends
2 clarification of the requirement that each bidder hold an “option” to purchase turbines or
3 other long lead-time equipment and suggests that PacifiCorp must hold its Benchmark to the
4 same standards.

5 **Company Response**

6 The Company is not proposing to change the two-step evaluation process. The Initial
7 Shortlist will rank the bids on price and non-price factors. The Final Shortlist will use the
8 ACC methodology. As the IE points out, all bids will avoid carbon emissions and produce
9 RECs so the bids will all be evaluated relative to one another on a comparable basis;
10 regardless if the analyses are performed with different CO₂ emissions or not. Using different
11 levels of CO₂ will provide a higher or lower ACC number relative to one another. To the
12 extent there is a need, the Company will continue to issue annual renewable requests for
13 proposals to procure renewable resources between now and December 2011.

14 Additionally, the Company agrees with the IE’s recommendation to clarify the
15 requirement for each bidder to hold an “option” to purchase turbines or other long lead-time
16 equipment, the Company proposes to modify the RFP to include this clarification. However,
17 the Company does not agree that the Benchmark should be held to the same standards.
18 Bidders who are most likely to have secured long lead-time equipment in advance are
19 national or multi-national companies in the business of renewable resource development.
20 These companies likely have the ability to allocate this equipment to other projects not
21 necessarily being offered for bid in the 2008R-1 RFP and have no cost or consequential
22 damage exposure under the terms of the 2008R-1 RFP if they internally allocate their

1 equipment elsewhere while the RFP is in process. There is no guarantee that a bidder will
2 make such equipment available only to the Company or that the bidder will ultimately
3 consummate a contract as a result of the RFP process. In contrast, the Company is limited in
4 geographic scope, and as a result, has fewer viable alternatives for the disposal of acquired
5 long lead-time equipment. This means, absent clarity by the Commission with respect to cost
6 recovery of long lead-time equipment costs, the Company has a higher risk profile than
7 bidders. As a result, the Company does not believe it should be required to secure long lead-
8 time equipment as part of its benchmark(s) prior to potential selection as the RFP winner. If
9 such equipment commitments are required of the Company, the Company will seek guidance
10 from the Commission on what cost recovery mechanisms are available in the event the
11 Company's benchmark resource is not selected, but the Company was required to secure
12 equipment in order to submit a benchmark(s) proposal.

13 **B. Addressing Uncertainty and Assigning Risk Issues with Standard Form**
14 **Contracts**

15
16 1. The IE recommends that the Company assess the risk of the extension or
17 removal of the Production Tax Credit ("PTC").

18 **Company Response**

19 The bids and benchmark(s) will be evaluated assuming the benefit of the PTC. The
20 Company will not take the PTC risk in the event a bidder is or is not eligible to receive the
21 benefit associated with the PTC during the term of the Agreement. A bidder will need to
22 evaluate this criterion and determine what premium it desires to charge for absorbing this
23 risk; including the risk to the bidder, if any, of default. This requirement places the bidder in
24 a symmetrical position as the Company. In contrast, the Company is prevented from

1 including a premium associated with this risk and the option associated with the
2 benchmark(s) because the Company is regulated on an after-the-fact cost of service basis.

3 2. The IE recommends that the Company investigate a way to further capture
4 capacity value and value due to diversity of location. The IE specifically comments that *“the*
5 *IRP process, which guides the acquisition amounts in this RFP, does take into account*
6 *capacity benefits and locational diversity”*. While the IE believes there may be some
7 incremental value that can be quantified via capacity contribution, the IE is careful to
8 appropriately point out *“Presently, there is no easy way that we know of to accurately*
9 *calculate this dollar value. We note that the value is likely to be smaller relative to the net*
10 *benefits calculated in the ACC method.* (Emphasis added).

11 **Company Response**

12 The Company agrees with the IE and intends to explore methods to quantify
13 incremental capacity value, if any, and ascertain if there is added value due to diversity not
14 already captured in the IRP process. Appropriately, these explorations should occur through
15 the stakeholder process in the Integrated Resource Planning process. It is not clear that there
16 would be additional value, not already accounted for, between wind and geothermal
17 resources on a cost effective portfolio basis related to meeting the peak load. Indeed,
18 customers have already benefited due to a reduction in planned resources as a result of an
19 assumed contribution by renewable resources toward reducing peak load. Capacity
20 contribution should be evaluated from a portfolio perspective in the IRP and not on a case-
21 by-case resource specific basis outside of the IRP preferred portfolio. At present, the
22 Company does not agree that the IE’s generic quantification recommendation is valid
23 because there is no analytical evidence to support it as such. Finally, as the IE notes, any such

1 quantification would be small as compared to the value inherently captured in the current
2 analytical method.

3 **C. Producing a Positive Result**

4 1. The IE recommends that, for the Power Purchase Agreement (“PPA”) option, bidders
5 not be required to sell the asset to the Company at the end of the Term, but have an option to
6 sell the project at a price set by the bidder.

7 **Company Response**

8 The Company agrees with the IE that a bidder should have the ability to offer a sale
9 price for the resource as part of its proposal. The Company does not agree that the Bidder
10 should have the option to sell or “put” the project to the Company and its customers. After
11 completion of the term of the PPA, the Company’s customers will typically have more than
12 paid for the generation resource. Customers should hold the terminal value rights and own
13 the resource option for future energy and/or RPS compliance requirements and, in so doing,
14 be hedged against market exposure upon PPA termination. Moreover, future benefits of the
15 site, if rights to it were retained by the bidder, could easily become ratepayer benefits at some
16 other utility even though the Company’s customers had funded the resource. It is
17 understandable that bidders want to retain all project rights after PPA termination as they
18 may be substantial.

19 This requirement places the PPA alternative on even footing with the ownership
20 alternatives and is in customer’s best interest from a cost and portfolio risk perspective.
21 Should the Commission order that PPA bidders retain this substantial value then the
22 analytical process in the RFP will need to be altered to capture value lost to customers.

23

1 2. The IE recommends that the Company either explicitly prohibit non-asset
2 backed bids from participating or eliminate the prohibition against bundling wholesale
3 market purchases with RECs, which is likely the only way in which these bids can
4 participate.

5 **Company Response**

6 The Company agrees with the IE and has eliminated the participation on non-asset
7 backed bids from this draft of the RFP.

8 3. The IE recommends that the requirement for maintaining Green-e certification
9 of all RECs should be made optional and be removed as a requirement of the RFP.

10 **Company Response**

11 The Company agrees with the IE and has modified the RFP to reflect the
12 recommendation.

13 4. The IE acknowledges that the bid fees are acceptable however, states that
14 should PacifiCorp consider a “partial success” fee whereby initial bid fees are paid and the
15 winning bidder pays the remaining administrative costs for the RFP.

16 **Company Response**

17 The Company has proposed a bid fee and a success fee in the 2008R-1 RFP, however;
18 it will continue to evaluate this issue after further input is received from the market.

19 **D. Compliance with Commission Guidelines**

20 1. The IE recommends that the initial shortlist be broken into wind and non-wind
21 bids consistent with competitive bidding Guideline 9a requiring resource diversity.

22 **Company Response**

23 The Company agrees with the IE recommendation and will have two categories in the
24 initial shortlist one for wind and the second for all other renewable resource types.

1 2. The IE recommends that the Benchmark disclose sites in order to comply with
2 competitive bidding Guidelines 4 and 8.

3 **Company Response**

4 The Company agrees to disclose the sites prior to receiving bids from the market but
5 continues to express concern that sophisticated bidders are likely to use such information to
6 maximize their bid price.

7 3. The IE recommends that the Company provide a draft asset sale agreement to comply
8 with Guideline 6.

9 **Company Response**

10 The Company agrees with the IE's recommendation and will reference the Appendix
11 F, Asset Acquisition and Sale Agreement, in the 2008R-1 RFP for the purchase of an existing
12 asset.

13 **E. Additional changes from the workshop include the following:**

14 1. RNP suggests that the Company should take care to ensure that cost of
15 transmitting its power from owned resources to the point of delivery is included in the
16 analysis.

17 **Company Response**

18 The Company has designed the RFP such that the cost of transmitting power from
19 owned resources or bids will be evaluated comparably.

20 2. RNP suggests that the Company further define the non-price factors to clarify
21 how they would apply to PPA, BOT, existing assets and the benchmark.

22 **Company Response**

23 Further clarification has been provided by the IE and the Company has incorporated
24 these refinements into the 2008R-1 RFP.

1 3. RNP suggests that the Company use a finer scale for non-price factor scoring
2 (instead of 0%, 50%, and 100%). RNP recommends interim categories in addition to 0% for
3 unacceptable and 100% for complete compliance such as minimally address the factor,
4 significantly address the factor and largely address the factor at 25%, 50%, and 75%
5 respectively.

6 **Company Response**

7 The Company agrees with the recommendation and has modified the 2008R-1 RFP
8 appropriately.

9 4. RNP is concerned by the Company's insistence that any contractual purchase
10 be subject to all risks associated with PacifiCorp's own accounting treatment.³ As structured,
11 this could result in default by the bidder from something they had no control over.

12 **Company Response**

13 The Company has removed the language that states "any applicable contract that the
14 Company executes will require that (1) the Seller covenant that the Company will not be
15 subject to VIE treatment at any point during the term of the agreement, and (ii) in the event
16 that the contract causes the Company to be subject to VIE treatment at any point during the
17 term of the agreement, unless cured, such treatment will constitute a seller event of default."

³ See Section 5(1).

1

III. CONCLUSION

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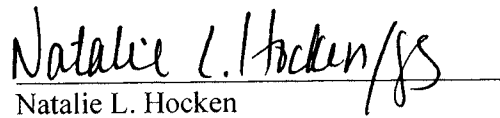
The Company respectfully submits these reply comments and the revised RFP for

3

further stakeholder comments.

DATED: July 28, 2008

Respectfully submitted,

A handwritten signature in black ink that reads "Natalie L. Hocken/JS". The signature is written in a cursive style and is positioned above a horizontal line.

Natalie L. Hocken
Vice President & General Counsel,
Pacific Power

Counsel for PacifiCorp

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